



UNIVERSITY OF CALIFORNIA OFFICE OF THE PRESIDENT

For Immediate Release

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**UNIVERSITY OF CALIFORNIA RELEASES RECOMMENDATIONS
ON LOS ALAMOS BUSINESS PRACTICES**

***President Atkinson calls for immediate action by national laboratory following review
by UC senior officials***

A Special Review Team of senior University of California officials today released a letter to President Richard C. Atkinson recommending nine actions that Los Alamos National Laboratory (LANL) should take regarding allegations on the loss or theft of government property and other business practice issues.

The recommendations were developed following a Nov. 25 on-site review that was ordered three days earlier by Atkinson, who has pledged to take decisive action to address allegations regarding financial activities at the UC-managed lab.

"Prompt action on these recommendations, together with efforts already underway at the initiative of Director John Browne, represent an important step in assuring confidence in the business practices at Los Alamos," said Atkinson. "I remain concerned about issues related to purchasing and property management and expect that they will be addressed in a timely manner."

The Special Review Team summarized their findings in nine observations and recommendations. They range from ways the national laboratory can strengthen its financial management controls to encouraging the Department of Energy Inspector General to review the termination of two investigators who allege they were fired in retaliation for their role in the investigations.

The full text of observations and recommendations are contained in the attached letter to President Atkinson.

In response, LANL Director John C. Browne noted that, beginning in August 2002, a number of actions had already been taken in response to apparent irregularities in

(more)

laboratory business practices. “I am confident that the present recommendations will enhance the actions already underway at the laboratory to strengthen internal controls, clarify roles and responsibilities, and improve the effectiveness of our communications,” said Browne.

The director will provide President Atkinson with regular progress reports.

Meanwhile, the University of California and the Los Alamos National Laboratory are cooperating fully with the Department of Energy Inspector General’s reviews related to purchasing and property management, as well as anonymous allegations of improper activity by Laboratory senior management.

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December 6, 2002

DIRECTOR BROWNE

Dear John:

I am writing to provide you with a copy of the report I just received from Senior Vice President Darling, Vice President Broome, Assistant Vice President Van Ness, and Executive Officer Cochran following their visit to Los Alamos to review the Laboratory's operations related to allegations regarding the loss or theft of government property and related issues. The report makes important recommendations that need to be acted on immediately by both the University and the Laboratory. These recommendations build on the actions that you have already taken and that are underway by the External Review Team chaired by former DOE Inspector General Layton.

I have scheduled a telephone appointment with you on Tuesday, December 10th to discuss the report. I look forward to receiving a report from you about the actions you are taking to address these recommendations in advance of our telephone call.

Sincerely,

A handwritten signature that appears to be "Dick" followed by a long horizontal line.

Richard C. Atkinson
President

Enclosure

cc: The Honorable Spencer Abraham
NNSA Acting Administrator Brooks
Senior Vice President Darling
Vice President Broome
Executive Officer Cochran
DOE Inspector General Friedman
General Counsel Holst
Senior Vice President Mullinix
Vice President McTague
Assistant Vice President Van Ness



OFFICE OF THE SENIOR VICE PRESIDENT—
UNIVERSITY AFFAIRS

OFFICE OF THE PRESIDENT
1111 Franklin Street, 12th Floor
Oakland, California 94607-5200

December 6, 2002

PRESIDENT ATKINSON

Dear President Atkinson:

We are writing to provide you with a summary of our observations and recommendations following our visit to Los Alamos National Laboratory. On Friday, November 22, you directed us to visit the Laboratory to review its operations related to allegations regarding the loss or theft of government property and related issues.

On Monday, November 25, we met at Los Alamos with numerous Laboratory officials and spoke by telephone with former DOE Inspector General John Layton, who is Chair of the External Review Team that Director Browne appointed to review the Laboratory's procurement and property programs and issues. The commitment of Director Browne and the senior Laboratory management to resolve these issues was evident throughout our meetings.

This report summarizes our preliminary observations and recommendations. It builds on the steps already undertaken by Director Browne, including the appointment of an External Review Team, consisting of two former federal Inspectors General and PricewaterhouseCoopers, the University's external audit firm, to investigate and address these matters. We may have further comments as this review continues.

Observation 1. *Laboratory officials and John Layton, former DOE Inspector General and Chair of the External Review Team appointed by Director Browne, informed us that the External Review Team had identified \$3,782,000 in procard purchases that have yet to be reconciled, that an additional \$790,000 in questionable costs remain unresolved, and that \$317,000 of disputed items have not been resolved and therefore credits have not been received. These figures are derived from a review of financial records over a period of 45 months.*

Recommendation 1. University Auditor Patrick Reed should visit the Laboratory to review the approach and scope of management's plans to address the unreconciled and unresolved procard expenditures. The University Audit Office plans to verify and validate the results of management's review and resolution of these expenditures and, therefore, the efforts of the Laboratory and the University Audit Office should be completed by December 31, 2002.

Observation 2. *Laboratory officials and John Layton informed us that the Laboratory revised its procard policies and procedures in August 2002. In reviewing prior procard procedures, they determined that 26% of the approximately 790 Laboratory employees who have been issued procards are more than 30 days late in reconciling their procard purchase statements. In addition, 36% of the supervisors of employees authorized to use procards are more than 30 days late in approving these procard purchases. Some procard statements have not been reconciled or approved for as many as 22 months.*

Recommendation 2. The Laboratory should direct the relevant employees and supervisors to complete the reconciliation and approval of these overdue expenditure statements by December 31, 2002. The Laboratory should strictly enforce all procedures contained in the new procard program, specifically the reconciliation/approval requirements, and should ensure that appropriate actions are taken promptly if cardholders fail to comply with reconciliation or other requirements.

Observation 3. *The Laboratory controls all property items with an initial acquisition cost of \$5,000 or greater, as well as property items costing less than \$5,000 that are judged to be attractive targets for theft (such as computers, cameras and cell phones). However, the Laboratory does not have a systematic process to ensure that controlled property items purchased via procards, or under just-in-time contracts, are entered into the property inventory.*

Recommendation 3. The Laboratory should establish a process to ensure that controlled property items are promptly entered into the property inventory, regardless of the method of purchase. The process should include regular reconciliation of Property Office records of controlled property with purchasing records of acquisitions of controlled property items.

Observation 4. *Upon completion of the annual property inventory, when the Property Office determines that property cannot be located, it provides its report of "unlocated" property to the Security Division for action. The Security Division informed us that it takes no formal action on the "unlocated" property.*

Recommendation 4. The Laboratory should evaluate its policies and procedures related to "unlocated" property. In addition, the Laboratory should clarify the roles and responsibilities of the Security Division, other line managers and property custodians for following-up on "unlocated" property.

Observation 5. *Laboratory officials and John Layton informed us that they had learned that the Laboratory Audit and Assessments Office issued repetitive findings dating back to 1996 involving procard use and related purchases that required management action. They indicated that some of these issues had not been resolved as of June 2002. It appears that Laboratory management periodically notified Audits and Assessments that audit findings had been resolved and that Audits and Assessments then closed-out the findings. It does not appear that Audits and Assessments verified the appropriateness and timeliness of the actions reportedly taken by management.*

Recommendation 5. The Laboratory, with guidance from the University Auditor, should adopt and enforce improved standards, including compliance with UC Audit Manual provisions, to make sure that Audit findings are investigated and that the recommendations are resolved in a timely and verifiable manner. In addition, the Laboratory should ensure that all managers with outstanding audit findings take timely and effective corrective action.

Observation 6. *Laboratory officials informed us that they are investigating reports that a small number of employees have misused purchase cards or violated purchasing procedures.*

Recommendation 6. Where it does not conflict with ongoing investigations by the DOE Inspector General or law enforcement officials, the Laboratory should complete its internal investigation of these allegations by December 31, 2002. In addition, the Laboratory should initiate appropriate personnel actions, consistent with University and Laboratory policies, either to exonerate or to commence disciplinary action, as the facts warrant, and take appropriate steps to recover any losses.

Observation 7. *The Laboratory would benefit from an independent external review of its financial processes – such as procurement, property management, project financial management, and cash – in order to evaluate its overall system of internal controls and accountability.*

Recommendation 7. The University should, in consultation with the Laboratory, commission an independent evaluation of the Laboratory's key financial processes to determine their business and control effectiveness as well as the appropriate organizational structure for performing these financial processes.

Observation 8. *It appears that the Laboratory Security Division does not routinely notify senior Laboratory officials when it becomes aware of inappropriate business activity at the Laboratory. Where theft is involved, we understand that law enforcement officials are notified, but that the DOE Inspector General and Laboratory management are not notified at the same time. This places Laboratory management in the unwelcome and*

inappropriate position of not being able to address management problems in a timely manner.

Recommendation 8. The Laboratory should review policies and procedures, and clarify roles and responsibilities, for reporting and taking action on allegations or incidents of inappropriate activity at the Laboratory, including all types of waste, fraud, abuse, and theft. Among other things, the review should identify any discrepancies in reporting procedures and practices as well as corrective actions needed to ensure that Laboratory management and the DOE Inspector General are notified in a timely manner.

Observation 9. *The Laboratory has not communicated adequately with the media about the facts related to these matters and the actions it is taking to address them.*

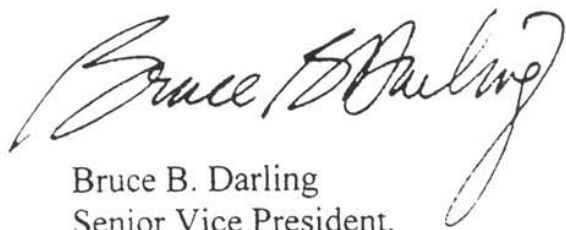
Recommendation 9. The Laboratory, in consultation with the University, should immediately establish a small integrated team of senior management and communications professionals to regularly communicate Laboratory actions to the media and others as appropriate.

Lastly, we encourage the DOE Inspector General, as part of his broader examination, to review the termination of the two Security Division investigators in order to address the allegation that these individuals were fired in retaliation for their role in the investigations. The University should work with the Laboratory to make its own assessment of this situation in a manner that does not interfere with the Inspector General's review.

We encourage the University and the Laboratory to implement these recommendations, as well as the forthcoming recommendations from the External Review Team chaired by John Layton, in a prompt and aggressive manner. We are willing to monitor progress on our recommendations as well as any additional recommendations if you would like us to assist you in this manner.

We believe that such action, together with the efforts the Laboratory already has underway, will not only address the issues outlined in this letter but will strengthen overall Laboratory business operations as well.

Sincerely,



Bruce B. Darling
Senior Vice President,
University Affairs
Office of the President



Anne C. Broome
Vice President,
Financial Management
Office of the President



Robert L. Van Ness
Assistant Vice President,
Laboratory Administration
Office of the President



Ronald W. Cochran
Laboratory Executive Officer,
Lawrence Livermore National
Laboratory

Cc: Secretary Abraham
NNSA Acting Administrator Brooks
Director Browne
DOE Inspector General Friedman
General Counsel Holst
Senior Vice President Mullinix
Vice President McTague



Office of the Director

December 9, 2002

Dr. Richard C. Atkinson
Office of the President
University of California
1111 Franklin Street, 12th Floor
Oakland, CA 94607-5200

Dear President Atkinson:

This letter is response to your letter directing me to address the written report from your special review team, chaired by Senior Vice President Bruce Darling, which visited the Laboratory on Monday, November 25, 2002.

I commit to you that I will hold my Senior Executive Team and myself personally accountable for ensuring that all areas identified for improvement are addressed by our Laboratory in a prompt manner.

There were nine (9) observations and related recommendations identified by the special review team. I have listed the recommendations in the attachment along with the related actions I have implemented or plan to take. I will keep you informed of the progress and will provide any reports that result.

I would like to thank you, Senior Vice President Darling and his team for the prompt consideration of these issues.

Sincerely,

John C. Browne
Director

JCB/co

Cy: The Honorable Spencer Abraham
NNSA Acting Administrator Brooks
Senior Vice President Darling
Vice President Broome
Executive Officer Cochran
DOE Inspector General Friedman
General Counsel Holst
Senior Vice President Mullinix
Vice President McTague
Assistant Vice President Van Ness
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LANL Report on Recommendations of the UC Special Review Team
John C. Browne
Director
Dec. 10, 2002

Introduction

Los Alamos National Laboratory Director John C. Browne provides this report to the President of the University of California. Its purpose is to describe

- actions taken by the Laboratory since August, 2002 in response to apparent misuse of purchase cards and purchase orders by several individuals and to issues raised concerning property management; and
- Additional actions that are underway or are planned in response to the recommendations of the UC Special Review Team (SRT), chaired by UC Senior Vice President Darling, after their visit to the Laboratory on November 25, 2002.

Actions Taken at Los Alamos National Laboratory Prior to the SRT Visit.

Beginning in August 2002, I took the following actions; unless otherwise noted, all listed actions are ongoing.

- I chartered an External Review Team in August, 2002, chaired by John Layton, former DOE Inspector General, to review policies, procedures and practices related to procurement cards (procards). Membership consists of Charles Matson, former Inspector General of the U.S. Department of Labor and representatives from PricewaterhouseCoopers, the University's external audit firm. Subsequent to completing the initial charter, I determined that this team also should review policies, procedures and practices related to purchase orders, Just-in-Time purchasing, and local vendor agreements (LVA). I expect to receive the Team's final report on procards about mid-December. Their review of the other purchasing mechanisms will begin immediately in January 2003.
- At my direction, on August 23, 2002 Rich Marquez, Associate Director for Administration, issued revised procedures governing use of procards. A copy of his memorandum is attached. The revised procard procedures will significantly strengthen controls and correct identified weaknesses in the procard program. The LANL External Review Team, chaired by John Layton, has indicated that the changes described in Rich's memo will address about 90% of its findings regarding internal control weaknesses or vulnerabilities.
- As soon as I was notified in July 2002 of the FBI investigation at TA-33, we reviewed security measures and directed additional counter-intelligence actions to assure that there would be no threats to national security. In addition, we requested that the FBI inform us immediately of any indications they might see of national security issues; they told us that they saw no evidence of national security problems in connection with their investigation.

- I have repeatedly made clear that all Laboratory managers and staff are expected to give unqualified and prompt cooperation to law enforcement, Inspector General, and University personnel engaged in investigations or reviews of Laboratory activity. In this connection, as soon as *The Energy Daily* article alleging senior management cover-up and investigative interference appeared, I specifically asked Acting NNSA Administrator Linton Brooks to request that the DOE Inspector General immediately investigate the allegations. Ambassador Brooks promptly responded to my request, and we received a confirming letter from the Inspector General the following day. The Inspector General's investigation is currently on going.
- Subsequent to news article allegations of missing property, I directed that Joe Salgado, Principal Deputy Laboratory Director, review records of classified computer holdings to determine whether any classified computer equipment was missing. Loss or theft of classified computers would be a security violation as well as an issue of property management. We reviewed our records back to 1999 and confirmed that there have been no reports of such security violations.
- There is a perception that the Laboratory and the University have not had a communication strategy for addressing current issues with NNSA and DOE senior officials, the DOE Inspector General, and the media. One of the special review team's recommendations addresses the issue of communications. I agree with their recommendation and have formed a Laboratory team of senior managers to address this issue. However, I would like to point out that I have consistently kept UCOP, NNSA, other government agency officials and the NM congressional delegation informed of these matters since I became aware of them in July, 2002.

Response to Recommendations of the UC Special Review Team

Recommendation 1. University Auditor Patrick Reed should visit the Laboratory to review the approach and scope of management's plans to address the unreconciled and unresolved procard expenditures. The University Audit Office plans to verify and validate the results of management's review and resolution of these expenditures and, therefore, the efforts of the Laboratory and the University Audit Office should be completed by December 31, 2002.

Action:

On December 4, 2002, a special Laboratory Information Meeting (LIM) was held at which John Layton gave an oral summary of his External Review Team's observations and findings, including the amounts of unreconciled, questionable, and disputed purchase card transactions listed in the UC review chaired by Senior Vice President Darling.

On December 5, 2002, Rich Marquez issued instructions to Division Leaders and Associate Directors for reconciling and justifying purchase card transactions. As

of this date, the figures contained in the University team's report have been substantially reduced as a result of work done at the Laboratory since the December 4 meeting. Current figures, which are expected to decrease even further within the next day, are as follows (numbers are approximate pending review and validation):

- Unreconciled transactions: \$490,000 (down from \$3.782 million as listed in the Special Review Team's report);
- Transactions pending review and justification: \$600,000 (down from \$790,000 as listed in the Special Review Team's report);
- Disputed transactions: \$300,000 (down from the \$317,000 as listed in the Special Review Team's report).

We have verified that a number of the accounts that showed as unreconciled on the database we provided to the Layton External Review Team, had been reconciled manually some time ago, but had not been entered into the database. Manual reconciliation is done (required) if a cardholder does not reconcile his/her account on time. Late reconciliations cannot be done automatically; they must be done manually. I have directed Rich Marquez to complete reconciliation and justification work not later than December 16, 2002. In addition, I have asked him to assure that manual reconciliations in the future are entered promptly into the database.

In the meantime, University Auditor Patrick Reed was at the Laboratory December 2 through December 4, 2002 to clarify the scope of the work he and a team of UC auditors will undertake to validate the Laboratory's reconciliation and justification of prior years' purchase transactions. He and Rich Marquez have agreed on terms of reference for the validation that he and UC auditors will do between now and the end of the year. Pat is expected to return to LANL with a team on Monday, December 9.

Recommendation 2. The Laboratory should direct the relevant employees and supervisors to complete the reconciliation and approval of these overdue expenditure statements by December 31, 2002. The Laboratory should strictly enforce all procedures contained in the new procard program, specifically the reconciliation/approval requirements; and should ensure that appropriate actions are taken promptly if cardholders fail to comply with reconciliation or other requirements.

Action:

As indicated above, Division Leaders and Associate Directors were tasked to complete their reconciliations and justifications of prior years' transactions and to provide reports to BUS Division on December 9, 2002. Their reports will be reviewed by BUS under the direction of Rich Marquez and subsequently validated by Pat Reed and his team.

As a result of the progress we have made in reconciling and resolving purchase card accounts (as described under Recommendation 1 above), we have been able to make substantial reductions in the numbers of card holders and approving supervisors whose accounts are more than 30 days overdue.

As indicated above, I have directed ADA Marquez to complete the current reconciliation work by December 16, 2002. In addition, I have asked to have quarterly progress reports on the effectiveness of the new procard program that was implemented in May 2002 and the revised procedures that we issued in August 2002.

Recommendation 3. The Laboratory should establish a process to ensure that controlled property items are promptly entered into the property inventory, regardless of the method of purchase. The process should include regular reconciliation of Property Office records of controlled property with purchasing records of acquisitions of controlled property items.

Action:

I have directed Rich Marquez to revise our procedures to assure that all controlled items are promptly entered into the property inventory. I have directed Rich to report to me by January 6, 2003 on his procedures for assuring that items are promptly and appropriately entered into the property inventory regardless of the method by which they are purchased and for periodically reconciling property management and purchasing records.

To put this item in context, it is worth noting that the Laboratory has consistently performed at the “Outstanding” level in property management. For the last 4 years, we have annually accounted for 99.5% or more of our controlled property inventory, on the bases of number of items and value of items.

Recommendation 4. The Laboratory should evaluate its policies and procedures related to “unlocated” property. In addition, the Laboratory should clarify the roles and responsibilities of the Security Division, other line managers and property custodians for following up on “unlocated” property.

Action:

I have asked Rich Marquez and Jim Holt, Associate Director for Operations to propose revisions to current policies and procedures regarding “unlocated” property. I expect that the revisions will require increased follow-up to reports of “unlocated” status and will clarify roles and responsibilities among S and BUS Divisions, line managers, and property custodians. I have asked for a report not later than January 6, 2003 on new or modified procedures for addressing “unlocated” property.

Recommendation 5. The Laboratory, with guidance from the University Auditor, should adopt and enforce improved standards, including compliance with UC Audit Manual provisions, to make sure that Audit findings are investigated and that the recommendations are resolved in a timely and verifiable manner. In addition, the Laboratory should ensure that all managers with outstanding audit findings take timely and effective corrective action.

Action:

I have directed Rich Marquez and the LANL Office of Audits and Assessments to assure that the Laboratory's procedures are fully compliant with audit standards established by the University and contained in the UC Audit Manual. I expect them to coordinate this effort with the University Auditor. In addition, I have asked Audits and Assessments to provide quarterly reports to me and to the University Auditor on timeliness, completeness, and verification of closed audit findings. I have asked for a progress report on January 31 and for the first quarterly report on March 30, 2003.

Recommendation 6. Where it does not conflict with ongoing investigations by the DOE Inspector General or law enforcement officials, the Laboratory should complete its internal investigation of these allegations by December 31, 2002. In addition, the Laboratory should initiate appropriate personnel actions, consistent with University and Laboratory policies, either to exonerate or to commence disciplinary action, as the facts warrant, and take appropriate steps to recover any losses.

Action:

We have assembled case review boards, in accordance with our administrative policies, for three individuals now on investigative leave. We have completed the process in two cases; letters of termination were mailed to these two individuals on December 6, 2002 and hand-delivered to them on December 09, 2002. The remaining case will be concluded as soon as investigative processes permit.

We will, of course, take all appropriate steps to recover losses whenever possible. In the three cases referred to above, our ability to recover losses is limited by ongoing investigative work, potential criminal proceedings, and provisions of New Mexico State law. In addition, we will urge that federal authorities take all appropriate steps to recover losses and that individuals who have or appear to have engaged in criminal conduct be prosecuted to the full extent of the law.

Recommendation 7. The University should, in consultation with the Laboratory, commission an independent evaluation of key financial processes to determine their business and control effectiveness as well as the appropriate organizational structure for performing these functions.

Action:

The Laboratory will await your decision on this recommendation. I will be happy to work with UCOP regarding the scope and charter for such a review.

Recommendation 8. The Laboratory should review policies and procedures, and clarify roles and responsibilities, for reporting, and taking action on allegations or incidents of inappropriate activity at the Laboratory, including all types of waste, fraud, abuse, and theft. Among other things, the review should identify any discrepancies in reporting

procedures and practices as well as corrective actions needed to ensure that Laboratory management and the DOE Inspector General are notified in a timely manner.

Action:

I have asked Roger Hagenruber, recently retired Senior Vice President of Sandia National Laboratories for Special Projects for National Security, to head a small (3-5 people) team of security experts to review our security actions, policies and procedures related to the events of the past year. Dr. Hagenruber is a recognized expert in security matters with extensive experience in threat assessment, security technology, arms control and nonproliferation. He has a long history of policy and program involvement with the defense and intelligence communities as well as with NNSA and its predecessor organizations.

I have asked Roger to identify best security practices from throughout the national security community and to provide recommendations on their potential use at Los Alamos. In addition, his review will include options for organizational structures as well as procedures for assuring that allegations of improper or suspect activities are reported and acted upon promptly and appropriately. I expect to receive Roger's report by mid- to late-February, 2003.

Pending completion of the Hagenruber review, I have asked Rich Marquez and Jim Holt to assure that the Laboratory complies promptly with all reporting requirements on incidents or allegations involving improper activity.

Recommendation 9. The Laboratory, in consultation with the University, should immediately establish a small-integrated team of senior management and communications professionals to communicate Laboratory actions to the media and others as appropriate.

Action:

I have established a team to improve communications with the media and with federal organizations. I would welcome University representation on the team. This will be an ongoing activity. We are in the process of hiring a new Leader for our Communications and External Relations Division and a new Public Affairs Director. Both positions have been nationally advertised; screening committees are currently reviewing applications. I have asked Rich Marquez to complete the hiring process not later than January 15, 2003. Consistent with existing Laboratory policy, the cognizant Associate Director fills positions at these levels with the concurrence of the Laboratory Director.

Terminations from the Office of Security Inquiries

With respect to the termination of the two employees of the Office of Security Inquiries, the DOE Inspector General is including this matter in his current review. The Laboratory is fully cooperating with the Inspector General and will continue to do so. In addition, we will work with the University to assess this situation in a manner that does not interfere with the Inspector General's review.

Progress Reporting

Quarterly progress reports will be provided to the President of the University beginning January 3, 2003.